

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Calhoun County Road Commission	County Calhoun
Fiscal Year End 12-31-06	Opinion Date May 30, 2007	Date Audit Report Submitted to State June 5, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

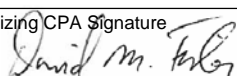
YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) Rehmann Robson		Telephone Number 517-787-6503		
Street Address 675 Robinson Road		City Jackson	State MI	Zip 49203
Authorizing CPA Signature 		Printed Name David M. Fisher, CPA		License Number 10337

**CALHOUN COUNTY ROAD
COMMISSION**

(a Component Unit of Calhoun County)

Marshall, Michigan

FINANCIAL STATEMENTS

For The Year Ended December 31, 2006



REHMANN ROBSON

Certified Public Accountants

CALHOUN COUNTY ROAD COMMISSION
(a Component Unit of Calhoun County)

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REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP



INDEPENDENT AUDITORS' REPORT

May 30, 2007

Members of the Board of County
Road Commissioners
County of Calhoun, Michigan
Marshall, Michigan

We have audited the accompanying financial statements of the governmental activities, the major fund and the aggregate remaining fund information of the **CALHOUN COUNTY ROAD COMMISSION, a component unit of Calhoun County, Michigan**, as of and for the year ended December 31, 2006, which collectively comprise the Road Commission's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Calhoun County Road Commission's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund and the aggregate remaining fund information of the **Calhoun County Road Commission** as of December 31, 2006, and the respective changes in financial position thereof and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3-10 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 30, 2007, on our consideration of the Calhoun County Road Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements which collectively comprise the Road Commission's basic financial statements. The schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the **Calhoun County Road Commission**. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Calhoun County Road Commission, we offer the readers of the Road Commission's financial statements this narrative overview and analysis of the financial activities of the Road Commission for the fiscal year ended December 31, 2006.

Financial Highlights

The Calhoun County Road Commission met the requirements of Governmental Accounting Standards Board (GASB) Statement No. 34 beginning with fiscal year end December 31, 2003.

Net assets may, over time, enable governmental agencies to determine their overall fiscal position. As shown on the Calhoun County Road Commission Net Asset chart below, the Road Commission's assets exceeded liabilities by \$42,570,753 at the end of the fiscal year.

When comparing the fiscal year to the previous year, net assets have increased by \$749,937. This was comprised of an increase of \$450,036 in infrastructure and capital assets, and an increase of \$299,901 in unrestricted net assets.

At the end of the current fiscal period, general fund unreserved fund balance was \$1,892,277 or 16% of total general fund expenditures, or an increase of 5%, \$390,293, over last fiscal year.

The Road Commission's debt decreased by approximately \$626,015 during the current fiscal year; no new debt was issued.

Overview of the Financial Statements

This discussion and analysis is intended to provide a basis of understanding the Road Commission's basic financial statements. These statements comprise three components: (1) government-wide financial statements (2) fund financial statements, and (3) notes to the financial statements. Supplementary information is also provided for additional informational purposes.

To simplify financial reporting and improve readability, the government-wide financial statements and the fund statements have been combined to report the statement of net assets and general fund balance sheet on a single page and the statement of activities and general fund revenues, expenditures and changes in fund balance on a single page. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the Road Commission's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Road Commission's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Road Commission is strengthening or weakening.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the Road Commission that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the Road Commission include public works projects on County roads. There were no business-type activities of the Road Commission in 2006.

Government-wide Statements

The *statement of net assets* presents information on all of the Commission's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as an indicator of the Commission's overall fiscal position.

The *statement of activities* presents information showing how the Commission's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in past or future fiscal periods (for instance, depreciation expense associated with capital assets).

The Commission is principally supported by Michigan Transportation fund distributions and intergovernmental grants and charges for services. The governmental activities of the Commission include providing construction, repair, maintenance, and snow removal of roads within Calhoun County, as well as providing housing rehabilitation and other community development programs to Calhoun County residents.

The government-wide financial statements include only the Commission itself. The Commission has no legally separate component units for which the Commission is financial accountable. In this report, financial information for the Commission is reported separately from the financial information presented for Calhoun County, which reports the Commission as a component unit.

Fund financial statements. A *fund* is grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. The Commission, like other units of state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The activity of the Commission is accounted for in four governmental funds – the General Fund, and Housing Rehabilitation, Community Development and Remonumentation Funds.

Governmental funds. *Governmental funds* (General Fund) are used to account for essentially the same function reported in the government-wide financial statements. However, unlike the government-wide financial statements, general fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of the general fund is narrower than that of the government-wide financial presentation, it is useful to compare the information presented for the general fund with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the general fund balance sheet and the general fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between the general fund and the government-wide statements.

The Commission maintains four governmental funds. The general fund is the major fund for financial reporting purpose as defined by GASB Statement #34. The Housing Rehabilitation, Community Development and Remonumentation Funds are nonmajor funds.

The Commission adopts an annual appropriated budget for its funds. Budgetary comparison statements have been provided herein for the General Fund in order to demonstrate compliance with the budget.

The Commission does not maintain proprietary nor fiduciary funds.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Road Commission, assets exceeded liabilities by \$42,570,753 at the close of the most recent fiscal year.

By far the largest portion of the Road Commission's net assets (94 percent) reflects its investment in capital assets (e.g., land, buildings, vehicles, equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. The Road Commission uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Road Commission's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Condensed Statement of Net assets:	<u>2006</u>	<u>2006</u>
Current and other assets	\$ 3,813,366	\$ 3,965,491
Capital assets	<u>42,443,007</u>	<u>42,641,557</u>
Total assets	<u>46,256,373</u>	<u>46,607,048</u>
Long-term liabilities outstanding	2,717,832	3,243,289
Other liabilities	<u>967,788</u>	<u>1,542,943</u>
Total liabilities	<u>3,685,620</u>	<u>4,786,232</u>
Net assets:		
Invested in capital assets	39,848,304	39,398,268
Unrestricted	<u>2,722,449</u>	<u>2,422,548</u>
Total net assets	<u>\$ 42,570,753</u>	<u>\$ 41,820,816</u>

At the end of the current fiscal year, the Road Commission is able to report positive balances in all categories of net assets. The same situation held true for the prior fiscal year.

The government's net assets increased by \$749,937, net of a restatement, during the current fiscal year. The majority of this growth largely reflects the degree to which ongoing revenues exceeded ongoing expenses.

Road Commission's Changes in Net Assets

Condensed Statement of Activities:

Revenue	<u>2006</u>	<u>2005</u>
Program revenue		
Charges for services	\$ 2,011,339	\$ 2,999,666
Operating grants and contributions	9,994,660	9,258,495
Capital grants and contributions	<u>637,185</u>	<u>818,931</u>
Total program revenue	<u>12,643,184</u>	<u>13,077,092</u>
General revenue – Interest income	<u>33,057</u>	<u>11,405</u>
Total revenue	<u>12,676,241</u>	<u>13,088,497</u>
Expenses		
Public Works	11,760,916	12,692,489
Debt Service - Interest only	<u>109,830</u>	<u>124,334</u>
Total expenses	<u>11,870,746</u>	<u>12,819,823</u>
Increase in Net Assets	<u>\$ 805,495</u>	<u>\$ 268,674</u>

Governmental activities. Governmental activities increased the Road Commission's net assets by \$805,495 during fiscal year 2006.

– Key elements of this increase are because the Road Commission was able to adjust their expenses to match the decrease in revenue from the Michigan Transportation Fund.

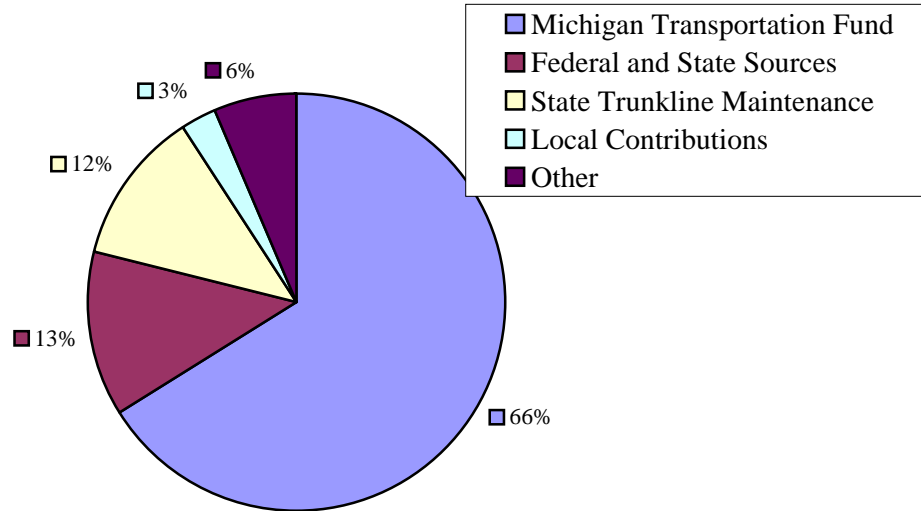
Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the commission's financial statements. The notes to the financial statements can be found following the Basic Financial Statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. This is limited to the *Management Discussion and Analysis*.

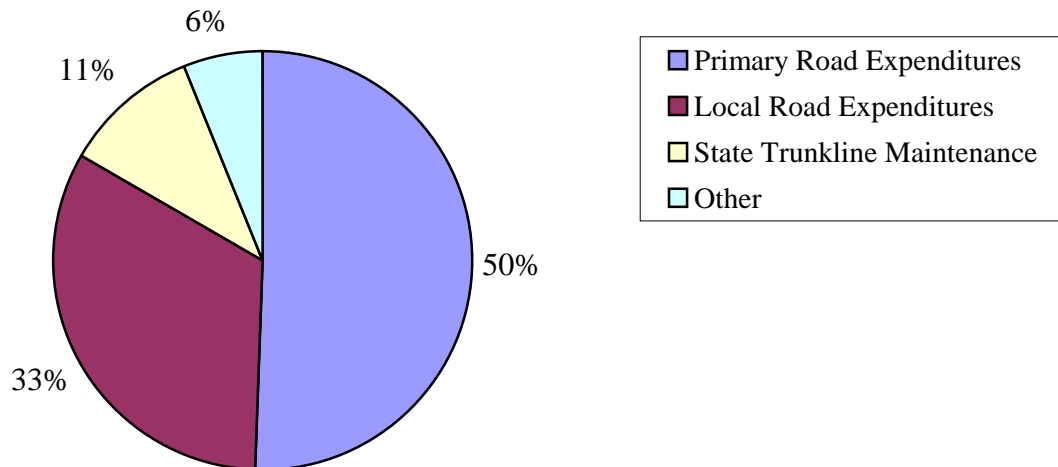
Fund Level Financial Statements

As of the end of the current fiscal year, the Commission's governmental funds reported combined ending fund balances of \$2,876,551, an increase of \$408,912 in comparison with the prior year. Approximately 70% of this total amount (\$2.02 million) constitutes *unreserved fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed to inventory purchases, which is included as a fund asset. The unreserved fund balance of the general fund is approximately \$1,892,277, which represents 16% of total general fund expenditures. Unreserved fund balance of the general fund had an increase of approximately \$420,000 due to a reduction in expenditures as compared to the prior year.

Revenues by Source - Governmental Activities



Expenditures - General Fund



Capital Assets and Debt Administration

Capital Assets

Major capital asset events during the current fiscal year included the following:

- Infrastructure assets reflect construction and improvements to the primary and local road system. Total additions to capital assets were \$ 1,693,639 of which infrastructure (roads and bridges) represented \$1,549,872.

Calhoun County Road Commission Capital Assets (net of depreciation)

	<u>2006</u>	<u>2005</u>
Land and improvements – not depreciated	<u>\$ 22,689,174</u>	<u>\$ 22,128,121</u>
Land improvements	72,387	72,387
Buildings	1,739,615	1,739,615
Road Equipment	9,124,840	9,015,978
Shop Equipment	246,657	246,657
Office Equipment	463,023	428,118
Engineering Equipment	76,115	76,115
Yard and Storage Equipment	814,254	814,254
Depletable assets	147,667	147,667
Infrastructure		
Roads and Signals	32,275,882	31,435,142
Bridges	<u>6,858,689</u>	<u>6,710,610</u>
Sub-total – capital assets depreciated	<u>51,819,129</u>	<u>50,686,543</u>
Accumulated Depreciation		
Buildings and improvements	1,529,679	1,476,776
Depleteable assets	112,544	112,544
Equipment	9,545,805	9,207,628
Infrastructure – Roads and Signals	18,264,604	16,672,970
Infrastructure – Bridges	<u>2,612,664</u>	<u>2,403,189</u>
Total Accumulated Depreciation	<u>32,065,296</u>	<u>30,173,107</u>
Total capital assets being depreciated – net	<u>19,753,833</u>	<u>20,513,436</u>
Governmental activities capital assets – net	<u>\$ 42,443,007</u>	<u>\$ 42,641,557</u>

Long-term Debt	<u>2006</u>	<u>2005</u>
Bonds Payable	\$ 2,165,000	\$ 2,570,000
Lease Purchase Agreements	130,960	383,943
Compensated absences	123,129	-0-
Contracts Payable	<u>298,743</u>	<u>289,343</u>
Total	<u>\$ 3,243,289</u>	<u>\$ 3,243,289</u>

No new debt was issued in 2006, and scheduled bond and lease purchase payments were made according to the amortization schedules.

Additional information on the Road commission's long-term debt can be found in Note 4 to the financial statements.

Economic Factors and Road Fund Budgetary Highlights

The Road Commission amended its 2006 general fund budget during the year to reflect the allocation between primary and local road projects after completion of the 2006 Master List of Projects.

Requests for Information

This financial report is designed to provide a general overview of Commission's finances for all those with an interest in the component unit's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Managing Director, Calhoun County Road Commission at 13300 Fifteen Mile Road, Marshall, MI 49068.

BASIC FINANCIAL STATEMENTS

CALHOUN COUNTY ROAD COMMISSION
STATEMENT OF NET ASSETS AND GOVERNMENTAL FUND BALANCE SHEET
DECEMBER 31, 2006

	<u>Major Fund</u> <u>General</u> <u>Operating</u>	<u>Nonmajor</u> <u>funds</u>	<u>Total</u> <u>Governmental</u> <u>Funds</u>	<u>Adjustments</u>	<u>Statement</u> <u>of Net Assets</u>
Assets					
Cash and interest bearing deposits	\$ 726,026	\$ 288	\$ 726,314	\$ -	\$ 726,314
Accounts receivable					
Michigan Department of Transportation	1,378,296	-	1,378,296	-	1,378,296
Due from other governmental units	40,681	-	40,681	806,975	847,656
Due from other County funds and component units:					
Parks fund	45,000	73,020	118,020	(118,020)	-
Board of Public Works component unit	633,258	55,697	688,955	(688,955)	-
Inventories					
Road materials	621,969	-	621,969	-	621,969
Equipment material and parts	233,300	-	233,300	-	233,300
Deferred expense	5,831	-	5,831	-	5,831
Capital assets					
Assets not being depreciated	-	-	-	22,689,174	22,689,174
Assets being depreciated	-	-	-	19,753,833	19,753,833
Total assets	\$ 3,684,361	\$ 129,005	\$ 3,813,366	42,443,007	46,256,373
Liabilities					
Accounts payable	524,498	-	524,498	-	524,498
Accrued liabilities	149,496	-	149,496	30,973	180,469
Escrow deposits	91,512	-	91,512	-	91,512
Short-term equipment advances	171,309	-	171,309	-	171,309
Long-term liabilities					
Due within one year	-	-	-	718,893	718,893
Due after one year	-	-	-	1,998,939	1,998,939
Total liabilities	936,815	-	936,815	2,748,805	3,685,620
Fund Balance/Net Assets					
Fund balance					
Reserved					
Inventories	855,269	-	855,269	(855,269)	-
Unreserved					
Undesignated	1,892,277	129,005	2,021,282	(2,021,282)	-
Total fund balance	2,747,546	129,005	2,876,551	(2,876,551)	-
Total liabilities and fund balance	\$ 3,684,361	\$ 129,005	\$ 3,813,366		
Net Assets:					
Investment in capital assets, net of related debt				39,848,304	39,848,304
Unrestricted				2,722,449	2,722,449
Total net assets				\$ 42,570,753	\$ 42,570,753

The accompanying notes are an integral part of these financial statements.

CALHOUN COUNTY ROAD COMMISSION

Reconciliation of Governmental Fund Balance Sheet to Statement of Net Assets

DECEMBER 31, 2006

Fund balances - Governmental Funds	\$ 2,876,551
Amounts reported for <i>governmental activities</i> in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	42,443,007
Long - term liabilities are not due and payable in the current period and are not reported in the funds:	
Bonds payable	(2,165,000)
Installment lease purchase agreements payable	(130,960)
Contracts payable	(298,743)
Certain liabilities, such as compensated absences and claims payable, are not due and payable in the current period and therefore are not reported in the funds:	
Deduct - compensated absences payable	(123,129)
Deduct - accrued interest payable	<u>(30,973)</u>
Net assets of governmental activities	<u><u>\$ 42,570,753</u></u>

The accompanying notes are an integral part of these financial statements.

CALHOUN COUNTY ROAD COMMISSION

STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

FOR THE YEAR ENDED DECEMBER 31, 2006

	Major Fund		Total		
	General	Nonmajor	Governmental		Statement of
	Operating	funds	Funds	Adjustments	Activities
Expenditures/Expenses					
Current:					
Public works	\$ 11,415,392	\$ 111,603	\$ 11,526,995	\$ 233,921	\$ 11,760,916
Debt service:					
Principal	661,386	-	661,386	(661,386)	-
Interest	123,948	-	123,948	(14,118)	109,830
Total expenditures/expenses	12,200,726	111,603	12,312,329	(441,583)	11,870,746
Program revenue					
Charges for services	1,955,806	55,533	2,011,339	-	2,011,339
Operating grants and contributions	9,994,660	-	9,994,660	-	9,994,660
Capital grants and contributions	637,185	-	637,185	-	637,185
Total program revenue	12,587,651	55,533	12,643,184	-	12,643,184
Net program revenue					772,438
General revenue					
Interest revenue	33,057	-	33,057	-	33,057
Net change in fund balances	419,982	(56,070)	363,912	(363,912)	
Change in net assets				805,495	805,495
Fund balance /net assets, beginning of year, as restated	2,327,564	185,075	2,512,639	39,252,619	41,765,258
Fund balance /net assets, end of year	\$ 2,747,546	\$ 129,005	\$ 2,876,551	\$ 39,694,202	\$ 42,570,753

The accompanying notes are an integral part of these financial statements.

CALHOUN COUNTY ROAD COMMISSION

Reconciliation of the Governmental Fund Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities

FOR THE YEAR ENDED DECEMBER 31, 2006

Net change in fund balances - Governmental Funds	\$ 363,912
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Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add capital outlay	984,507
Add Infrastructure additions	709,132
Deduct depreciation expense	(1,892,189)

Repayment of debt principal is an expenditure in the funds but not in the statement of activities:

Bond payments	405,000
Contract and lease purchase installment payments	256,386
Addition to contract payable	(12,800)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Deduct increase in compensated absences payable.	(22,571)
Add decrease in accrued interest payable	14,118

Change in net assets of governmental activities	<u>\$ 805,495</u>
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The accompanying notes are an integral part of these financial statements.

CALHOUN COUNTY ROAD COMMISSION
GENERAL FUND
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
YEAR ENDED DECEMBER 31, 2006

	Original Budget	Amended Budget	Actual	Actual Over (Under) Amended Budget
Revenue:				
Licenses and permits	\$ 120,000	\$ 75,000	\$ 80,480	\$ 5,480
Intergovernmental:				
Federal sources	682,442	1,288,896	637,185	(651,711)
State sources	7,977,000	7,977,000	9,200,892	1,223,892
Local sources	400,000	464,775	348,434	(116,341)
Charges for services	1,645,372	1,756,333	1,526,892	(229,441)
Interest and rent	4,500	23,000	33,057	10,057
Other	-	1,055,000	793,768	(261,232)
Total revenue	10,829,314	12,640,004	12,620,708	(19,296)
Expenditures:				
Current:				
Primary heavy maintenance	2,010,864	1,666,095	1,409,012	(257,083)
Local heavy maintenance	426,132	10,000	140,704	130,704
Primary maintenance	4,778,486	5,094,672	3,924,814	(1,169,858)
Local maintenance	2,409,465	4,103,700	3,499,211	(604,489)
Equipment - net	168,035	-	(140,655)	(140,655)
Administrative	1,015,994	1,028,286	1,005,116	(23,170)
Other	1,813,672	1,918,147	1,823,167	(94,980)
Capital outlay - net	65,241	171,610	(245,977)	(417,587)
Debt service	793,709	793,709	785,334	(8,375)
Total expenditures	13,481,598	14,786,219	12,200,726	(2,585,493)
Net change in fund balance	(2,652,284)	(2,146,215)	419,982	2,566,197
Fund balance, beginning of year, as restated	2,327,564	2,327,564	2,327,564	-
Fund Balance, end of year	\$ (324,720)	\$ 181,349	\$ 2,747,546	\$ 2,566,197

The accompanying notes are an integral part of these financial statements.

CALHOUN COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Calhoun County Road Commission (the “Road Commission”) conform to generally accepted accounting principles as applied to governmental units. The following is a summary of the significant policies.

Reporting Entity

The Calhoun County Road Commission, referred to as the Road Commission, is a discrete component unit of the County of Calhoun, Michigan. The Road Commission was established pursuant to the county road law (MCL 224.1), and is governed by a three member Board of County Road Commissioners appointed by the County Board of Commissioners.

The criteria established by the Governmental Accounting Standards Board Statement No. 14, “The Financial Reporting Entity”, for determining the reporting entity includes having significant financial or operational relationships. Based on the above criteria, these financial statements present the Calhoun County Road Commission, a discretely presented component unit of Calhoun County.

The Road Commission General Operating Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the County, which are earmarked by law for street and highway purposes. The Board of County Road Commissioners has responsibility for the administration of the Road Commission’s General Operating Fund.

The Road Commission also has the responsibility for administering various County projects and grants through the Community Development Department.

Basis of Presentation

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the primary government. *Governmental activities* are supported by charges for services and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Internally dedicated resources are reported as general revenues rather than as program revenues.

CALHOUN COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

As permitted by GASB Statement No. 34, the Road Commission uses an alternative approach reserved for single program governments to present combined government-wide and fund financial statements by using a columnar format that reconciles individual line items of fund financial data to government-wide data in a separate column. Accordingly, this is presented in the Statement of Net Assets and Governmental Funds Balance Sheet and the Statement of Activities and Governmental Fund Revenues, Expenditures and Changes in Fund Balances. The general fund, the sole major governmental fund, is reported as a separate column in the aforementioned financial statements.

Measurement Focus Basis of Accounting and Financial Statement Presentation

The government-wide financial statements (statement of net assets and the statement of activities) are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund (general fund) financial statements (general fund balance sheet and general fund statement of revenues, expenditures and changes in fund balance) are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences not expected to be paid in the current year and claims and judgments, are recorded only when payment is due.

State and grant revenue, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental fund:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government.

Additionally, the government reports the following funds as nonmajor special revenue funds. The *housing rehabilitation fund* accounts for housing grants for projects within the County. The *remonumentation fund* accounts for revenues and expenditures of remonumentation programs within the County, and the *community development fund* accounts for various development projects which benefit the County.

CALHOUN COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

Budgetary Data

The governmental funds are under formal budgetary control. The budget shown in the financial statements was adopted on a basis consistent with generally accepted accounting principles (GAAP), which is the modified accrual basis used to reflect actual results, and consists only of those amounts contained in the formal budget as originally adopted or as amended by the Board of County Road Commissioners. The budget for the General Operating Fund and Special Revenue Funds are adopted on a functional basis, and in accordance with the Uniform Budgeting and Accounting Act as prescribed by the State of Michigan. Variances at the functional level of control in the general fund are reflected in the Statement of Revenue, Expenditures and Changes in Fund Balance – Budget and Actual – General Operating Fund.

Cash and Cash Equivalents

Amounts reported as cash and cash equivalents include cash in checking and savings accounts.

Inventory

Inventory consists of various operating parts, supplies, and road material, and the cost is recognized using the consumption method (inventories recorded as expenditures when they are used). Inventories are stated at average cost determined on a first-in, first-out method, except for road materials, which are determined on the average cost method, and are not in excess of fair value.

Prepaid Items

Payments made to vendors for services that will benefit future periods are recorded as prepaid items.

Fund Balance Reservations

Certain assets of the Road Commission are reserved and therefore, not available for future appropriation. These include amounts reserved for inventory.

Capital Assets

Capital assets, which include property, equipment and infrastructure assets (roads, bridges and similar items) are reported in the government-wide statements (statement of net assets and statement of changes in net assets). Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date donated. The Road Commission defines capital assets as assets with an initial cost of more than \$5,000 and an estimated useful life in excess of two years.

CALHOUN COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are recorded as capital expenditures at the time of purchase in the fund financial statements and are subsequently capitalized on the government-wide statements through an adjustment to the governmental fund column.

The Uniform Accounting Procedures prescribed for Michigan County Road Commissions provide for recording depreciation in the General Operating Fund as a charge to various expense accounts and a credit to the depreciation contra expense account. Accordingly, the annual depreciation expense does not affect the available operating fund balance of the General Operating Fund.

Depreciation is recorded over the estimated useful lives (ranging from five to fifty years) of the assets, using the sum-of-years digits method for road equipment and straight-line method for all other capital assets and infrastructure as follows:

<u>Asset Category</u>	<u>Useful Life in Years</u>
Buildings and improvements	40
Equipment	5 to 8
Infrastructure	8 to 50

Deferred Compensation Plan

The Road Commission offers its employees a deferred compensation plan created in accordance with IRS section 457. The plan, available to all Commission employees, permits them to defer a portion of their current salary until future years. A trust has been established for the plan assets and the related assets and liability are not included in the Road Commission's financial statements.

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. As permitted by GASB Statement No. 34, the Road Commission has elected to apply the provisions related to bond premiums, discounts, and issuance costs on a prospective basis.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

CALHOUN COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

Compensated Absences

Accrued Vacation and Sick - In accordance with contracts negotiated with the various employee groups of the Road Commission, employees have a vested right upon termination to receive compensation for accumulated sick and vacation leave under formulas and conditions specified in the contracts. Employees are compensated at the rate of 100% of their vested vacation and sick leave upon termination for any reason. Beginning in 1999, the accumulated sick leave is paid off to the employees on an annual basis at the end of each calendar year. The vested portion of accumulated vacation leave payable is included as a liability in the Statement of Net Assets at December 31, 2006.

2. CASH DEPOSITS AND INVESTMENTS

Deposits

At December 31, 2006, the amount of the Road Commission's deposits were as follows:

	Carrying Amount	Bank Balance
Held by Calhoun County Road Commission	\$ 90,459	\$ 215,830
Held by Calhoun County	635,555	635,555
Petty cash	300	-
	\$ 726,314	\$ 851,385

Statutes authorize the Road Commission to invest funds in the following:

- Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States
- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution
- Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase
- Bankers acceptances of United States banks
- Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service
- Mutual funds registered under the investment company act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation
- External investment pools as authorized by Public Act 20 as amended through 12/31/97

CALHOUN COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

Investment and deposit risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the listing of authorized investments above. The Road Commission's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The Road Commission has no investments at December 31, 2006.

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments above. The Road Commission's investment policy does not have specific limits in excess of state law on investment credit risk. The Road Commission has no investments at December 31, 2006.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Road Commission's deposits may not be returned. State law does not require and the Road Commission does not have a policy for deposit custodial credit risk. As of December 31, 2006, \$24,754 of the Road Commission's bank balance of \$215,830 was exposed to custodial credit risk because that amount was uninsured by the FDIC. Deposits in the amount of \$635,555 held by Calhoun County may be partially covered by federal depository insurance. The amount of federal depository insurance is determined for the County as a whole, but cannot be separately identified for the Road Commission.

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Road Commission will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the Road Commission does not have a policy for investment custodial credit risk.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments above. The Road Commission's investment policy does not have specific limits in excess of state law on concentration of credit risk. The Road Commission has no investments at December 31, 2006.

CALHOUN COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

3. CAPITAL ASSETS

Changes in the components of the capital assets are summarized as follows:

	Balance January 1, 2006	Additions	Deductions	Balance December 31, 2006
Capital assets not being depreciated:				
Land	\$ 484,292	\$ -	\$ -	\$ 484,292
Land improvements - infrastructure	21,643,829	561,053	-	22,204,882
Total capital assets not being depreciated	22,128,121	561,053	-	22,689,174
Capital assets being depreciated:				
Land improvements	72,387	-	-	72,387
Buildings and improvements	1,739,615	-	-	1,739,615
Road equipment	9,015,978	108,862	-	9,124,840
Shop equipment	246,657	-	-	246,657
Office equipment	428,118	34,905	-	463,023
Engineers' equipment	76,115	-	-	76,115
Yard and storage	814,254	-	-	814,254
Depletable assets	147,667	-	-	147,667
Infrastructure - roads and signals	31,435,142	840,740	-	32,275,882
Infrastructure - bridges	6,710,610	148,079	-	6,858,689
Total capital assets being depreciated	50,686,543	1,132,586	-	51,819,129
Accumulated depreciation and depletion				
Buildings and improvements	1,476,776	52,903	-	1,529,679
Equipment	9,207,628	338,177	-	9,545,805
Depletable assets	112,544	-	-	112,544
Infrastructure - roads and signals	16,972,970	1,291,634	-	18,264,604
Infrastructure - bridges	2,403,189	209,475	-	2,612,664
Total accumulated depreciation and depletion	-	1,892,189	-	32,065,296
Total capital assets being depreciated - net	20,513,436	(759,603)	-	19,753,833
Governmental activities capital assets - net	\$ 42,641,557	\$ (198,550)	\$ -	\$ 42,443,007

CALHOUN COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

4. LONG-TERM DEBT

Long-term debt of the Road Commission consists of the following:

	Balance January 1, 2006	Increases	Decreases	Balance December 31 2006	Due Within One Year
Bonds payable	\$ 2,570,000	\$ -	\$ 405,000	\$ 2,165,000	\$ 305,000
Installment leases payable	383,946	-	252,986	130,960	130,960
Contracts payable	289,343	12,800	3,400	298,743	282,933
Compensated absences	100,558	22,571	-	123,129	-
Totals	\$ 3,343,847	\$ 35,371	\$ 661,386	\$ 2,717,832	\$ 718,893

Transportation Bonds

The Road Commission has issued the following Transportation Fund Notes:

Series 1998 bonds are payable in annual installments of \$45,000 to \$50,000 with interest at 4.15% per annum. The final payment is due August 1, 2008.

Series 2002A bonds are payable in annual installments of \$90,000 with interest at 3.35% to 4.4% per annum. The final payment is due August 1, 2012.

The 2002B series bonds are payable in annual installments of \$35,000 to \$50,000 with interest at 3.15% to 4.00% per annum. The final payment is due August 1, 2012.

Series 2003 bonds are payable in annual installments of \$75,000 to \$115,000 with interest at 3.25% to 4.0% per annum. The final payment is due March 1, 2013.

Series 2005 bonds are payable in annual installments of \$55,000 to \$85,000 with interest at 3.00% to 4.05% per annum. The final payment is due March 1, 2015.

CALHOUN COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

Special Assessment Contract

The Road Commission was assessed their portion of sewer construction costs for the Eastern Calhoun County Sewer Project No. 13 (Sheridan Township - Starr Commonwealth) in the amount of \$90,087 during 1992. Project construction and financing is being administered by the Calhoun County Department of Public Works. The Road Commission is responsible for making variable annual principal payments and interest at 3% of outstanding principal through the year 2012. At December 31, 2006, the Road Commission's portion of the sewer liability is \$19,210.

Land Contract

Ott Property

The Road Commission has entered into a contract to purchase a building and land which provides for payments of \$600 per month beginning in October, 1999, with interest at 10% per annum. This is a negative amortization land contract where the accrued interest is added to the land contract principal balance. The balance outstanding at December 31, 2006 is \$279,533.

Installment Lease

The Road Commission has consolidated and refinanced various equipment leases into one installment lease contract, which is secured by the related equipment, and calls for semi-annual installments of \$134,031 through January 2007, which includes interest at 4.5%.

Compensated Absences

Employees are allowed to accumulate vacation time off from year to year until the employee has completed 2 years of service. Any accumulated vacation pay is paid upon termination.

CALHOUN COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

Annual debt service requirements to maturity for bonds, lease purchase agreements and contracts are as follows:

Year ending December 31,	Bonds		Installment Leases		Contracts		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 305,000	\$ 80,363	\$ 130,960	\$ 3,071	\$ 282,933	\$ 20,480	\$ 718,893	\$ 103,914
2008	315,000	69,177	-	-	3,400	395	318,400	69,572
2009	280,000	57,388	-	-	3,400	310	283,400	57,698
2010	290,000	46,903	-	-	3,400	225	293,400	47,128
2011	305,000	76,362	-	-	3,400	140	308,400	76,502
2012-2015	670,000	40,671	-	-	2,210	55	672,210	40,726
	<u>\$ 2,165,000</u>	<u>\$ 370,864</u>	<u>\$ 130,960</u>	<u>\$ 3,071</u>	<u>\$ 298,743</u>	<u>\$ 21,605</u>	<u>\$ 2,594,703</u>	<u>\$ 395,540</u>

In addition, the Road Commission has obtained short-term advances in order to finance capital equipment used for the State Trunkline Maintenance contract. The advance balance was \$171,309 at December 31, 2006.

5. INTERFUND RECEIVABLES AND PAYABLES

From time to time the Road Commission has interfund balances between many of its funds. These interfund balances resulted primarily from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. There were no interfund receivable balances at December 31, 2006.

6. DEFINED BENEFIT PENSION PLAN

Plan Description

The Road Commission's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Road Commission participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the Retirement Board of MERS. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917, or by calling (800) 767-6377.

CALHOUN COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

Funding Policy

The Road Commission is required to contribute at an actuarially determined rate; the current rate is 15.3 % to 18.6% of annual covered payroll. Certain employees are required to contribute to the Plan. The contribution requirements of the Road Commission are established by Act No. 427 of the Public Acts of 1984, as amended, and may be amended by the Retirement Board of MERS. The contribution requirements of plan members, if any, are established and may be amended by the Road Commission.

Annual Pension Cost

For the year ended December 31, 2006, the Road Commission's annual pension cost of \$519,201 for MERS was equal to the Road Commission's required and actual contributions. The required contribution was determined as part of the December 31, 2003 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, and (c) additional projected salary increases of 0.0% to 8.4% per year, depending on age, attributable to seniority/merit. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect market value. The Road Commission's unfunded actuarial accrued liability as of December 31, 2004, the date of the latest actuarial valuation, is being amortized as a level percentage of projected payroll on an open basis over 27 years.

Three-Year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
12/31/04	\$ 485,364	100%	\$ -
12/31/05	528,560	100	-
12/31/06	519,201	100	-

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL) - Entry Age</u>	<u>Unfunded Actuarial Liability (UAAL)</u>	<u>UAAL as a Percentage of Funded Ratio</u>	<u>Covered Payroll</u>	<u>Percentage of Covered Payroll</u>
12/31/03	\$5,637,315	\$ 9,860,393	\$4,223,078	57%	\$2,953,201	143%
12/31/03	6,103,478	10,561,802	4,458,324	58	3,226,726	147
12/31/05	6,601,274	11,402,631	4,801,357	58	3,179,707	151

CALHOUN COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

Additional Information

On April 1, 1994, the Road Commission ceased its pension plan with John Hancock Mutual Life Insurance Company (JHMLIC). Sufficient reserves were set aside in annuities for the existing retirees of the Plan on April 4, 1994.

7. RISK MANAGEMENT

The Road Commission is a member of the Michigan County Road Commission Self-Insurance Pool ("Pool") established pursuant to the laws of the State of Michigan which authorizes contracts between municipal corporations (interlocal agreements) to form group self-insurance pools, and to prescribe conditions to the performance of these contracts.

The Michigan County Road Commission Self-Insurance Pool was established for the purpose of making a self-insurance pooling program available for Michigan County Road Commissions, which includes, but is not limited to, general liability coverages, auto liability coverages, property insurance coverages, stop loss insurance protection, claims administration, and risk management and loss control services pursuant to Michigan Public Act 138 of 1982.

The Calhoun County Road Commission pays an annual premium to the Pool for property (buildings and grounds) coverage, automobile liability, errors or omissions liability and bodily injury, property damage and personal injury liability. The agreement for the formation of the Pool provides that the Pool will be self-sustaining through member premiums and will purchase both specific and aggregate stop-loss insurance to the limits determined necessary by the Pool Board.

The Road Commission is also self-insured for workers' compensation as a member of the County Road Association Worker's Compensation Fund

In the past three years, there have been no reductions in coverages, nor have settlements exceeded coverages. Management of the Road Commission believes that losses, if any, in excess of Insurance Pool coverages would not be material to the financial position of the Road Commission.

The Road Commission continues to carry commercial insurance for employee health and accident insurance.

8. CONTINGENCIES

Under the terms of various Federal and State grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such grants could lead to reimbursement to the grantor agencies. However, Road Commission management does not believe such disallowances, if any, will be material to the financial position of the Road Commission.

The Road Commission has been named as a defendant in various litigation involving lawsuits pending and notices of intent to file suit.

Management and legal counsel of the Road Commission expect no material losses in excess of insurances should an unfavorable outcome prevail. No provision for any loss has been made in the accompanying financial statements.

CALHOUN COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

9. POSTEMPLOYMENT BENEFITS

The Road Commission provides both health and life insurance benefits for retired employees meeting specific years of continued service requirements. Generally, coverage of these benefits extends until the employees death. The spouse of the deceased employee is not covered after the employee' death. Costs incurred by the Road Commission during 2006 amounted to \$372,991 among 48 retirees.

The Governmental Accounting Standards Board has recently released Statement No. 45, "Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions." The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending December 31, 2008. Management is currently assessing the impact of this new accounting standard on the Road Commission's financial statements for future reporting periods.

10 RESTATEMENTS

There was a restatement (decrease) in net assets at January 1, 2006, in the amount of \$100,558 due to the correction in the amount of compensated absences reported as liabilities in the Statement of Net Assets.

Also, there was a restatement (increase) in fund balance and net assets at January 1, 2006, in the amount of \$45,000 due to the amount owed to the Calhoun County Road general operating fund from the Calhoun County Parks operating fund resulting from a transaction in the year 2005.

* * * * *

OPERATING FUND SCHEDULES

CALHOUN COUNTY ROAD COMMISSION
NONMAJOR SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
DECEMBER 31, 2006

	Housing Rehabilitation	Community Development	Remonumen- tation	Total
Assets				
Cash and cash equivalents	\$ 288	\$ -	\$ -	\$ 288
Accounts receivable	-	-	-	-
Due from County Parks fund	-	73,020	-	73,020
Due from County BPW Component Unit	-	55,697	-	55,697
Total Assets	\$ 288	\$ 128,717	\$ -	\$ 129,005
Fund Equities				
Unreserved, undesignated	\$ 288	\$ 128,717	\$ -	\$ 129,005

CALHOUN COUNTY ROAD COMMISSION
NONMAJOR SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES
IN FUND BALANCES

YEAR ENDED DECEMBER 31, 2006

	Housing Rehabilitation	Community Development	Remonumen- tation	Total
Revenues				
Charges for services	\$ 55,533	\$ -	\$ -	\$ 55,533
Expenditures				
Contractual services	39,553	-	-	39,553
General and administrative	15,692	-	56,358	72,050
Total expenditures	55,245	-	56,358	111,603
Net change in fund balances	288	-	(56,358)	(56,070)
Fund balances, beginning of year	-	128,717	56,358	185,075
Fund balances, end of year	\$ 288	\$ 128,717	\$ -	\$ 129,005

CALHOUN COUNTY ROAD COMMISSION

Detail Schedule of Revenue General Operating Fund

Year Ended December 31, 2006

Revenues

Licenses and permits	\$ 80,480
Federal sources:	
Federal D funds	345,185
Surface transportation program (STP)	292,000
Total Federal Sources	<u>637,185</u>
State sources:	
Motor Vehicle Highway Funds - Act 51:	
Engineering	10,000
Primary roads	5,293,437
Local roads	2,056,312
Primary urban roads	625,967
Local urban roads	256,511
Exchange funds	306,761
Economic Development Fund	651,904
Total State Sources	<u>9,200,892</u>
Local sources	
Township contributions	329,005
Other contributions	19,429
Total Local Sources	<u>348,434</u>
Charges for services	
State maintenance contract	1,474,666
Other services	42,359
Salvage sales	9,867
Total Charges For Services	<u>1,526,892</u>
Interest and rent	<u>33,057</u>
Other revenue:	
Other	793,768
Total Other Revenue	<u>793,768</u>
Total Revenue	<u>\$ 12,620,708</u>

CALHOUN COUNTY ROAD COMMISSION

Detail Schedule of Expenditures General Operating Fund

Year Ended December 31, 2006

Expenditures:

Preservation - Structural Improvements	
Primary roads and structures	\$ 1,409,012
Local roads and structures	140,704
Total Heavy Maintenance	<u>1,549,716</u>
Maintenance:	
Primary roads and structures, winter and traffic control	3,924,814
Local roads and structures, winter and traffic control	3,499,211
Total Maintenance	<u>7,424,025</u>
Equipment:	
Direct	801,569
Indirect	714,353
Operating	315,385
Less: Equipment rental	(1,971,962)
Total Equipment	<u>(140,655)</u>
Administrative	<u>1,005,116</u>
Other	<u>1,823,167</u>
Capital outlay -net	<u>(245,977)</u>
Debt Service:	
Principal retirement	661,386
Interest	123,948
Total Debt Service	<u>785,334</u>
Total Expenditures	<u><u>\$ 12,200,726</u></u>

CALHOUN COUNTY ROAD COMMISSION

Schedule of Revenue, Expenditures and Changes

In Fund Balances

General Operating Fund

Year Ended December 31, 2006

	Primary Road Fund	Local Road Fund	County Road Fund	Total
Revenues				
Licenses and permits	\$ -	\$ -	\$ 80,480	\$ 80,480
Intergovernmental:				
Federal sources	637,185	-	-	637,185
State sources	6,885,268	2,315,624		9,200,892
Local sources	-	235,224	113,210	348,434
Charges for services	1,474,666	-	52,226	1,526,892
Interest and rent	-	-	33,057	33,057
Other	-	-	793,768	793,768
Total revenue	8,997,119	2,550,848	1,072,741	12,620,708
Expenditures				
Preservation - structural improvements	1,409,012	140,704	-	1,549,716
Maintenance:				
Road and structures	3,182,380	3,134,232	-	6,316,612
Winter	343,521	234,910	-	578,431
Traffic control	398,913	130,069	-	528,982
Equipment - net	(73,858)	(58,189)	(8,608)	(140,655)
Administrative	597,422	407,694	-	1,005,116
Trunkline maintenance	1,287,948	-	-	1,287,948
Trunkline nonmaintenance	186,718	-	28	186,746
Other	139,810	-	208,663	348,473
Capital outlay - net	-	-	(245,977)	(245,977)
Debt service-principal	-	-	661,386	661,386
Debt service-interest	-	-	123,948	123,948
Total expenditures	7,471,866	3,989,420	739,440	12,200,726
Revenue over (under) expenditures before other financing sources (uses)	1,525,253	(1,438,572)	333,301	419,982
Other financing sources (uses)				
Optional transfers	(1,438,572)	1,438,572	-	-
Net change in fund balances	86,681	-	333,301	419,982
Fund Balance, beginning of year	1,062,338	-	1,265,226	2,327,564
Fund Balance, end of year	\$ 1,149,019	\$ -	\$ 1,598,527	\$ 2,747,546



REHMANN ROBSON

Certified Public Accountants

A member of **THE REHMANN GROUP**



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

May 30, 2007

Members of the Board of County
Road Commissioners
County of Calhoun, Michigan
Marshall, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the *CALHOUN COUNTY ROAD COMMISSION*, a component unit of Calhoun County, Michigan, as of and for the year ended December 31, 2006, and have issued our report thereon dated May 30, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Calhoun County Road Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Road Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Road Commission's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Road Commission's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Road Commission's financial statements that is more than inconsequential will not be prevented or detected by the Road Commission's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Road Commission's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

However, we noted other matters involving the internal control over compliance, financial reporting and/or operating efficiency that we have reported to management of Calhoun County Road Commission in a separate letter dated May 30, 2007.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Road Commissioners, others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP



May 30, 2007

Board of County Road Commissioners
Calhoun County Road Commission

We have audited the financial statements of the *Calhoun County Road Commission* for the year ended December 31, 2006, and have issued our report thereon dated May 30, 2007. Professional standards require that we provide you with the following information related to your audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and Government Auditing Standards

As stated in our engagement letter dated January 10, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of Calhoun County Road Commission. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Calhoun County Road Commission's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Calhoun County Road Commission are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2006. We noted no transactions entered into by the Calhoun County Road Commission during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most significant estimates affecting the financial statements was:

Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future. We evaluated the key factors and assumptions used to develop the useful lives of those assets in determining that it is reasonable in relation to the financial statements taken as a whole.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on Calhoun County Road Commission's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by Calhoun County Road Commission, either individually or in the aggregate, indicate matters that could have a significant effect on Calhoun County Road Commission's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Calhoun County Road Commission's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

This information and the attached memorandum is intended solely for the use of the Board and management of the Calhoun County Road Commission and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style. The first name "Lehmann" is written with a large, prominent 'L' and the last name "Johnson" follows in a similar cursive script.

CALHOUN COUNTY ROAD COMMISSION

COMMENTS AND RECOMMENDATIONS

YEAR ENDED DECEMBER 31, 2006

In planning and performing our audit of the financial statements of Calhoun County Road Commission as of and for the year ended December 31, 2006, in accordance with auditing standards generally accepted in the United States of America, we considered the Road Commission's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Road Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Road Commission's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

Other Matters

OPEB Liability

The Road Commission, as well as other governmental units which offer other post employment benefits (health and life insurance benefits to retirees, or "OPEB") are going to require recording the annual cost and liability in the annual financial statements. Up until this new accounting standard is implemented, governmental units, including the Road Commission, have been on a "pay as you go" or cash basis to reflect these costs in their financial statements. This accounting treatment stays in place for the Road Commission through the fiscal year ended December 31, 2007. Then, for fiscal year 2008, this new reporting standard will require an actuarial report in order to determine funding requirements to force recording of a liability while service is rendered (normal cost), plus an adjustment for past service costs (called amortization of actuarial accrued liability).

CALHOUN COUNTY ROAD COMMISSION

COMMENTS AND RECOMMENDATIONS (Continued)

YEAR ENDED DECEMBER 31, 2006

The amount of the annual “ARC” expense must be recorded on each entity’s financial statements. To the extent that this annual “ARC” amount is not currently funded, the under-funding must be reported on the entity’s balance sheet as a liability.

This comment is intended as an informational point. Accordingly, the Road Commission should make sure all preparations and forecasts are addressed as the implementation date draws nearer

Ott Land Contract

This comment is repeated from prior years’ accounting memorandums and has not yet been resolved. In accordance with the terms of a land contract related to the purchase of a building and land in 1998, interest at the rate of 10% accrues on the outstanding balance of \$175,000. Monthly payments of \$600 are called for, which results in negative amortization. The negative amortization has resulted in an increase in principal of \$12,800 in 2006, making the new balance \$279,533. The land contract provides for early payment “if grant monies can be found”. In the year 2013, under the present payment scheme, the principal balance would grow to \$367,000.

We again recommend that the Road Commission continue to determine options for reducing this burden in order to eliminate the negative amortization, or to examine other options by either paying off the obligation, or refinancing the debt on this property should grant monies are secured.

Internal control matters

Payroll Processing

The Road Commission’s procedures do not currently include an independent review and approval of the payroll register prior to the distribution of pay checks. In order to enhance the internal controls in this area, we recommend that an independent review of the payroll register be performed prior to check distribution.

Postemployment benefit policy

The Road Commission currently does not have a formal policy for other post employment benefits eligibility (health and life insurance benefits) to retirees, even though benefits are paid under a plan. We recommend that the Road Commission adopt a formal policy for this benefit to avoid any potential misunderstandings.

CALHOUN COUNTY ROAD COMMISSION

COMMENTS AND RECOMMENDATIONS (Concluded)

YEAR ENDED DECEMBER 31, 2006

Interfund Loans

This comment is repeated again for the year ended December 31, 2006. At December 31, 2006, the Road Commission general operating fund has advanced The Board of Public Works Solid Waste fund \$633,258 which is shown as due from component units in the financial statements. These transactions represent an unauthorized use of Road funds if the loans are other than temporary. These loan balances have existed for the past several years.

The Boards of the Roads and Public Works should explore ways to reduce the interfund loan balance completely.

Community Development fund balance

The Road Commission has completed its Community Development activities in 2006, and at December 31, 2006 is left with a fund balance of \$128,717. In 2007, officials of the Road Commission and Calhoun County should determine an equitable distribution of this fund balance in order to properly close the fund.

* * * * *